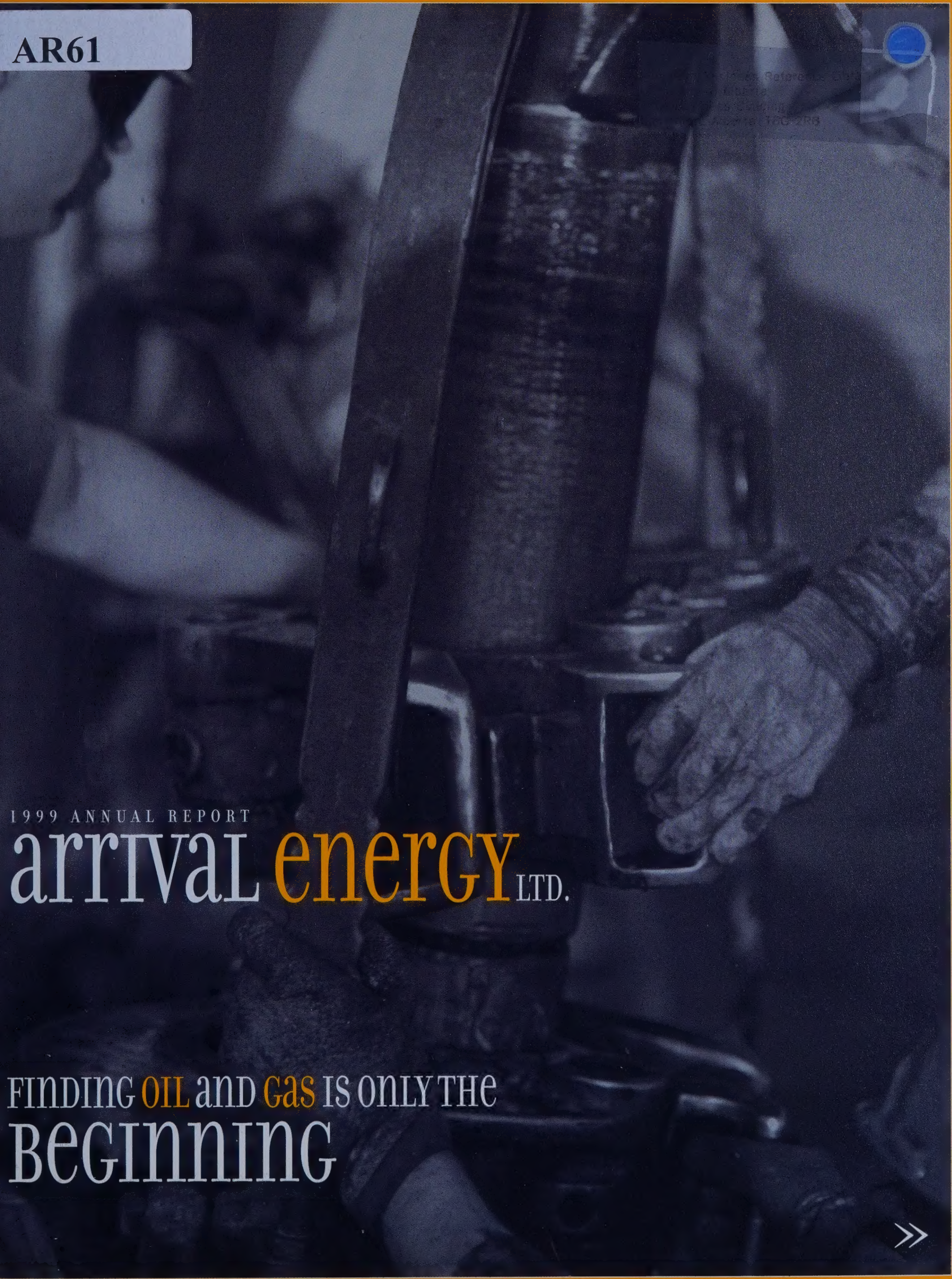


1999 ANNUAL REPORT

arrival energy LTD.

FINDING OIL AND GAS IS ONLY THE BEGINNING

corporate profile

Arrival Energy Ltd. is a **Calgary**, Alberta based emerging oil and natural gas exploration, development and production company that is **actively expanding** its reserve and production base in western Canada. The year ended December 31, 1999 marked the company's second full year of operations. In fall 1999, Arrival appointed a new management team with a mandate to improve overall performance. Arrival's **corporate objectives** are to attain sustainable per share growth in reserves, production, cash flow, earnings and asset value for its shareholders.

Arrival trades on the Canadian Venture Exchange under the symbols ARR.A and ARR.B. At year-end 1999, there were 5,825,665 Class A shares and 762,600 Class B shares outstanding.

inside...

annual meeting of shareholders

The Annual General Meeting of the shareholders of Arrival Energy Ltd. will be held on June 20, 2000 at 10:00 a.m. at the Metropolitan Centre located at 333-4th Avenue S.W., Calgary, Alberta. All shareholders are encouraged to attend.

» Producing it profitably is the goal

PRODUCTION (boe/day)

arrival energy LTD.

NET EARNINGS ($)

CASH FLOW ($000)

HIGHLIGHTS

FINANCIAL

($000's except per share)	1999	1998	% Change
Production revenue	**6,687**	1,801	271
Cash flow from operations	**4,475**	786	469
Per Class A share - basic	**0.77**	0.18	328
Per share fully diluted	**0.44**	0.07	529
Net income (loss)	**769**	(11)	na
Per Class A share - basic	**0.08**	(0.01)	na
Net capital expenditures	**11,073**	5,577	99
Working capital deficiency	**4,323**	1,140	279
Long term debt	**1,950**	Nil	na
Number of shares (000's)			
Class A shares	**5,826**	4,460	31
Class B shares	**762**	762	na
Fully diluted* (B shares 5.68:1)	**10,159**	11,399	11
*Fully diluted does not include options			

OPERATIONS

	1999	1998	% Change
Average production (10:1)			
Oils and liquids (bbls/day)	**527**	346	52
Natural gas (mcf/day)	**3,060**	492	521
Barrel of oil equivalent (boe/day)	**833**	395	111
Product prices			
Oil and liquids ($/bbl)	**24.28**	12.34	97
Natural gas ($/mcf)	**2.77**	2.45	13
Weighted average ($/boe)	**25.56**	13.86	84
Cash flow netback	**14.72**	5.45	170
Operating cost ($/boe)	**5.85**	4.83	21
General and administrative ($/boe)	**0.87**	2.22	(61)
Reserves			
Proven			
Oil and NGLs (mbbls)	**857.2**	704.4	22
Natural gas (mmcf)	**1,878**	6,040	(69)
Barrels of oil equivalent (mboe)	**1,045.0**	1,308.4	(20)
Proven and probable			
Oil and NGLs (mbbls)	**1,587.7**	929.9	71
Natural gas (mmcf)	**2,668**	6,323	(58)
Barrels of oil equivalent (mboe)	**1,854.4**	1,562.2	19
Undeveloped land (acres)			
Gross	**39,192**	17,020	130
Net	**30,282**	12,000	152
Wells drilled			
Gross	**21**	10	110
Net	**15.46**	6.2	152

Letter to the Shareholders

In many ways, nineteen ninety-nine was a milestone year for Arrival. It represented our second complete year of operations which included continued success in production, cash flow and net earnings and a major restructuring of the management team. We are pleased to provide our shareholders with a review of 1999 and to outline our plans to take Arrival into the new millennium.

Highlights included:

- Average daily production rose 110 percent to 833 barrels of oil equivalent (boe) from 395 boe in 1998;
- Proven and probable oil and natural gas reserves increased 19 percent to 1.85 million boe at year-end 1999 from 1.56 million boe at year-end 1998.
- Cash flow from operations rose 469 percent to $4.5 million in 1999 from $0.8 million in 1998 as a result of our significantly higher production and stronger commodity prices.
- Gross production revenue increased 289 percent to $7.8 million in 1999 from $2.0 million in 1998.
- Net income was $769,000 in 1999 compared to a net loss of $11,000 in 1998.

Arrival's corporate strategies will continue to follow a business plan that emphasizes full-cycle exploration and development in addition to strategic acquisitions that are capable of adding quality, long-life reserves. In 1999 obligations with respect to the original flow-through capital that provided the seed capital for the Company partially influenced our business plan. Consequently, we were fortunate to be able to add significant volumes despite our requirement to incur high risk exploration expenses to complete the renouncement of exploration expenditures. The renouncement has now been completed and Arrival is positioned and determined to build a solid foundation from which to grow our business profitably in future years.

Expenditures on higher risk exploration activities which fulfills the renouncement obligation to the original Class B shareholders can have unfortunate consequences. For instance, our successful and highly prolific well at Worsley delivered an excellent return on investment. However, the reservoir was situated on top of a very strong water aquifer and the well watered out by early January 2000. This resulted in our production declining by 233 boe per day and our reserves being lowered by 300,000 boe.

In 1999, Arrival drilled 21 wells, including 10 that were focussed on our heavy oil property at Smiley, and 4 Granite Wash oil prospects at Red Earth. At Smiley, the oil pool was down-spaced to define its limits in preparation for unitization. Although the concept and the need for additional well bores for water injection to improve recovery is a sound business strategy, our decline rates were initially higher than we anticipated. Subject to unitization negotiations, we remain committed to begin waterflooding the pool; however we are not in a position to determine start-up of the waterflood.

Our commitment to quality, long-term reserves paid off with the acquisition of a 50 percent operated, under-developed light oil-gas property at Gordondale in the Peace River Arch area of Northwestern Alberta effective November 1, 1999. Current production was increased to 190 boe per day from 30 boe per day through a recompletion and some facility reconfigurations. Gordondale reflects our new focus to select and acquire properties with quality, long-life reserves and exploration and development potential.

Our activities to date, together with our financial results, give us confidence that we can grow the Company profitably. In 1999, Arrival's cash flow gained 469 percent to $4.5 million from $0.8

million in 1998. More important, basic earnings per share were significantly higher in 1999 at $0.08 versus $0.0 in 1998.

Corporate Developments

The fundamental resource of a successful company is its people. Given the proper tools and working environment, a dedicated and determined group with professional skills and strong characters will work cohesively as a team and deliver top-quartile performance in any industry. In 1999, Arrival recruited the professionals we believe will take us to the next level of growth as a junior exploration company. We added Ken Truscott as Vice President of Land and Business Development, Dan Wilson as Vice President of Engineering and Peter Guyan as Vice President of Exploration. Mr. Truscott has 20 years of industry experience with various sizes of companies and his negotiating skills will be instrumental as we move forward. Mr. Wilson has 14 years of industry experience in all aspects of engineering and his financial awareness and controls will be instrumental in managing the Company. Mr. Guyan has 16 years of industry experience as an explorationist and has been responsible for significant discoveries in the Peace River Arch area of Alberta and British Columbia in the 1990's. The initial project undertaken by this new team was the Gordondale acquisition which is the number one priority in our business plan. Each of these individuals is a shareholder in Arrival, and each is dedicated to improving our performance.

Looking Ahead

On April 7, 2000 the Corporation announced a reorganization to the management team where Mr. Dan T. Wilson assumed the role of President and Chief Executive Officer and was appointed a Director and Mr. D. Ken Truscott assumed the role of Senior Vice President and Chief Operating Officer. Mr. Andrew W. Kramchynski will continue to be an integral part of the Arrival team in his role as Senior Vice President, Corporate Development and as Director.

On May 1, 2000, AltaQuest Energy Corporation and Arrival Energy Ltd. announced the terms of a proposed amalgamation. Arrival shareholders would receive 1.4 AltaQuest common shares for each Arrival Class A share and 2.24 AltaQuest common shares for each Arrival Class B share. The management team of Arrival will assume management of the combined entity. The Board of Directors of the combined entity will be reconstituted to consist of three nominees of Arrival and two nominees of AltaQuest. The amalgamation circular for the annual and special meeting of Arrival is anticipated to be mailed no later than May 25, 2000.

Arrivals' current production is 575 boe per day (net of dispositions). This production, comprised of 55% light oil, natural gas liquids and gas and 45 percent heavy oil, will generate approximately $3,500,000 of year 2000 cash flow at an average WTI price of US$26.00 per bbl and an average wellhead gas price of CDN$2.79 per mcf. Our year 2000 capital expenditure program is set at $4,000,000, of which $3,000,000 has been spent to May 1, 2000. The capital will be focused on our light oil and gas exploitation and exploration prospects, identified on our acquisition on the Peace River Arch. Our ability to spend additional capital is restricted due to the current equity environment, cash taxes payable on a go-forward basis and the substantial reduction in our bank line as stated in our management's discussion and analysis.

The proposed transaction with AltaQuest Energy Corporation will result in the formation of a junior oil and natural gas company with production of 1,100 boe per day (net of dispositions), approximately 24.6 million common shares outstanding (listed on The Toronto Stock Exchange), estimated year 2000 cash flow of $6,500,000 to $7,000,000, net debt at May 1, 2000 of $4,500,000 after property dispositions and estimated combined bank lines of $8,000,000. The combined company would have reserves of 8.1 bcf and 1.46 million bbls of oil and natural gas liquids on a proven plus 50 percent probable basis. With the increased cash flow and bank lines, the merged company will have the financial flexibility to capitalize on opportunities that exist in both companies. The income tax horizon of the merged company will be increased beyond the current cash taxes payable situation that exists in Arrival.

In closing, 1999 was a challenging time during which we faced poor commodity prices at the beginning of the year and had to make essential changes to our management team at mid-year. Nonetheless, we are well positioned for the future with a solid business plan, and a core group of assets that provides steady cash flow. On behalf of the Board of Directors, we would like to thank the staff and shareholders for their commitment over the past year. We look forward to our third year of operation.

Dan Wilson

Dan T. Wilson
President and
Chief Executive Officer
May 5, 2000

Andrew W. Kramchynski
Senior Vice President
and Director

exploration & operations review

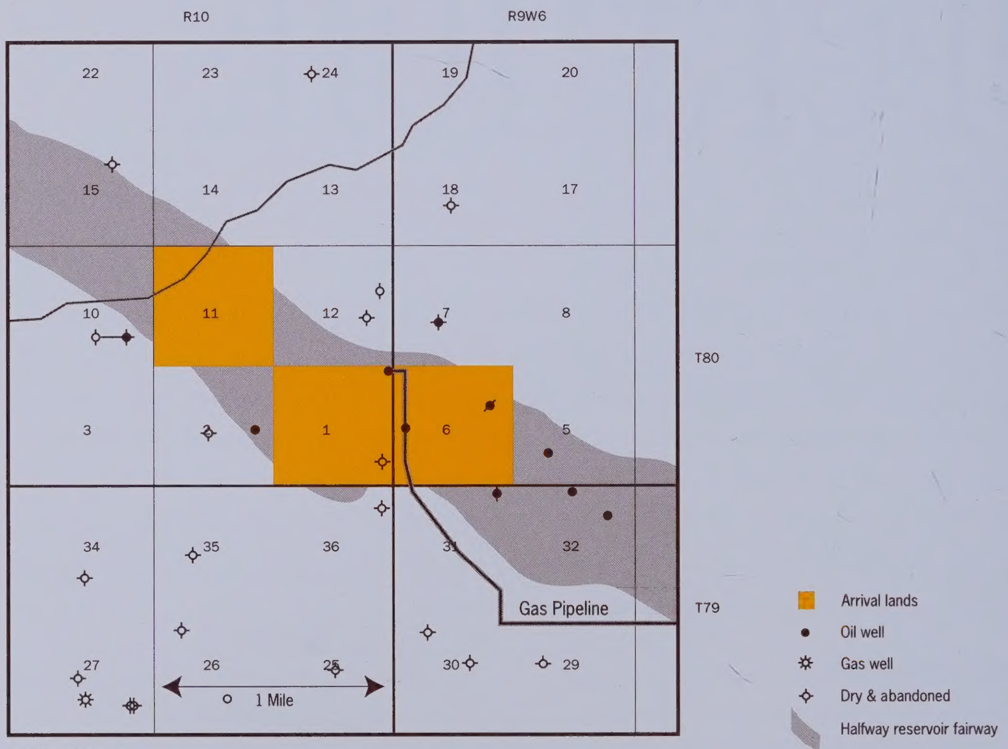
Arrival's major properties and activities are concentrated within four core regions of the Western Canadian Sedimentary Basin in the provinces of Alberta and Saskatchewan. These core regions constitute a well balanced portfolio of Company-operated producing properties, and exploration and development prospects with significant upside potential. Operatorship and high working-interest ownership remain essential components of our business plan, helping to ensure maximum benefit to our shareholders and control of the Company's future growth. In addition to our 1999 exploration and development program, we consummated a complementary acquisition in early 2000 at Gordondale which provides the foundation for our Northwestern Alberta core region and acquired one joint venture partner's interest in the North Central core area.

CORE AREA ASSET SUMMARY

Core area	1999 Total reserves (mboe)	Undeveloped land (net acres)	Daily average production volume (boe) 1999	1998
Alberta				
Worsley	33.9	1280	222	23
Red Earth	735.3	1200	251	30
Saskatchewan				
Browning	153.6	444	44	21
Smiley	658.8	330	195	278
Total	1,581.6	3,254	712	352

All of Arrival's core regions have Company-operated facilities as well as contiguous undeveloped acreage. These core regions will be the primary areas of focus for the $4.0 million capital program in 2000, with an emphasis in the Northwestern core region.

EXPLORATION AND OPERATIONS REVIEW



GORDONDALE

Northwestern Region (Gordondale)

Arrival's commitment to build a significant presence in the Peace River Arch is exemplified through the fourth quarter purchase of a 50 percent working interest in the Triassic Gordondale property and 100 percent ownership in the gas gathering system. Production averaged 30 net boe per day for the fourth quarter and as operator, Arrival has plans to increase production through existing wellbore optimization and capture incremental production and reserves through implementation of a seismic supported, multi-well drilling program. Current production is 190 boe per day net, as one well was re-completed in one zone prior to spring breakup.

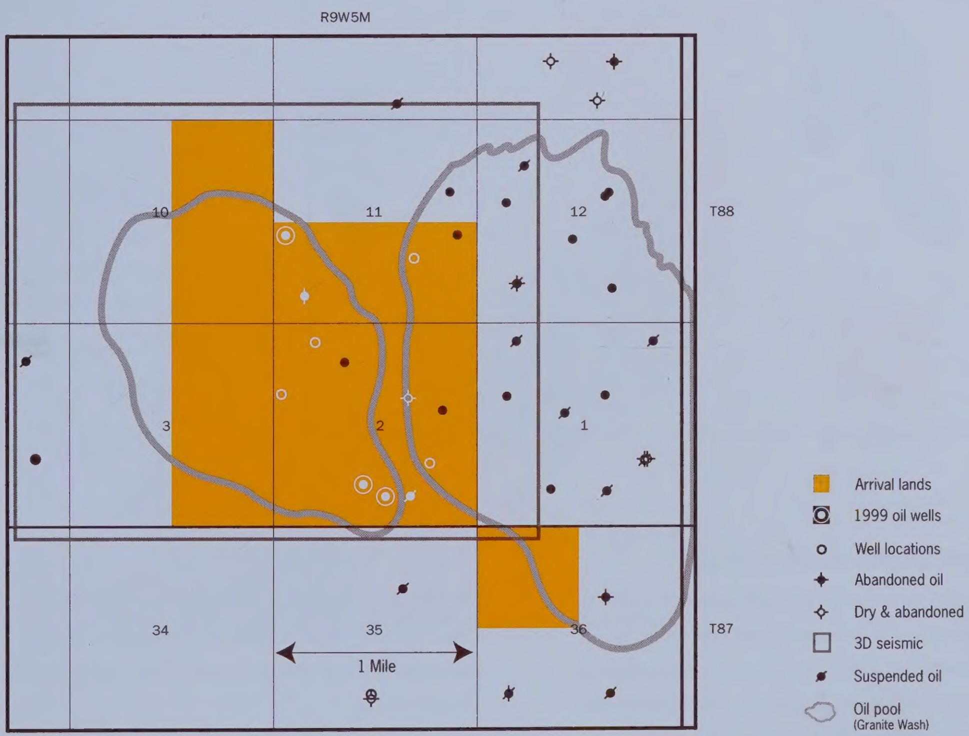
Worsley

Arrival operates four 100 percent working interest Nisku oil wells tied into the Company operated treating facility. Since the property purchase in July 1998. Arrival has increased production from 35 to 70 boe per day of light, high quality (38° API) oil. A recent rework of Arrival's proprietary two square mile, 3D seismic program, located over the producing property, has identified additional development drilling opportunities for 2000.

North Central Alberta (Red Earth)

Arrival operates this 100 percent working interest property which produces high quality (38° API) oil from the Slave Point and Granite Wash formations. During the year Arrival acquired a joint venture partner's interest and optimized the area by flowlining all the wells to a central gathering station.

Three additional wells were drilled, bringing production to approximately 260 boe per day at year-end. Subsequent to year-end, the Corporation closed the sale of the Red Earth property for a total consideration of $4,500,000 cash.



RED EARTH

exploration and operations review

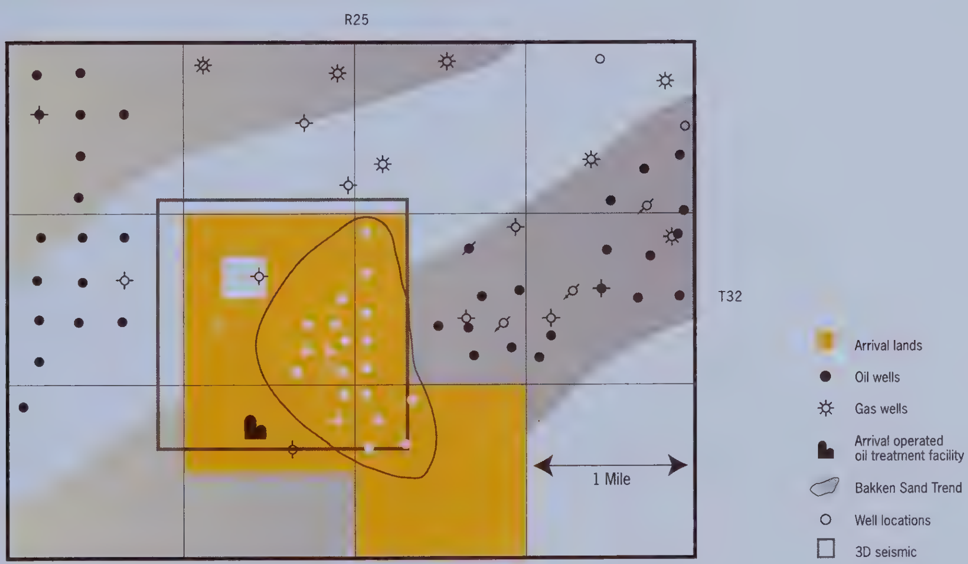
BROWNING

Southeast Saskatchewan (Browning)

The Company more than doubled its land position in 1999 in the Browning area to hold approximately 864 net acres. Arrival's production is tied into a Company-owned central oil treating facility which was purchased in 1999. One well was drilled unsuccessfully in the fall, however based on our experience and knowledge base in this area, we believe there is further upside to exploit. Arrival operates and has a 65 percent working interest and production of approximately 35 boe per day.

West Central Saskatchewan (Smiley)

The Company's Smiley pool produces a heavy crude (16° API) oil from the Bakken formation to a Company-operated central treating facility. The pool was down-spaced and a 10 well infill program was completed late in the year to delineate the limits of the pool. This allowed Arrival to enter negotiations with respect to unitization. Estimated original oil in place of 9 to 11 million barrels have been assigned to this pool. The 10 well drilling program was successful. Although our decline rates were initially higher than expected, unitization discussions are continuing and we are committed to begin waterflooding the pool; however we are not in a position to determine start-up of the waterflood.



SMILEY

Operations Statistical Summary

Land

Arrival has a project-specific business plan for the acquisition of undeveloped land. By purchasing land with near-term opportunities in mind, the Company is able to grow prudently and maximize the amount of capital available for producing property acquisitions and drilling opportunities. In certain circumstances, we have entered into joint venture arrangements where a non-taxable joint venture partner is responsible for the land acquisition — the least desirable expenditure from a corporate tax point of view. Arrival contributes its share of the joint venture costs by paying for drilling — the most favorable expenditure from a tax point of view.

Land Holdings

	1999			1998		
(thousand acres)	**Gross**	**Net**	**WI%**	Gross	Net	WI%
Developed	**9,517**	**6,310**	**66.3**	NA	NA	NA
Undeveloped	**29,675**	**23,972**	**80.7**	17,020	12,000	71
Total	**39,192**	**30,282**	**77.3**	17,020	12,000	71

Drilling Activity

As a result of successful discoveries in 1998, development programs at Smiley and Red Earth provided the majority of the oil well drilling program. Due to the type of properties Arrival pursued as a new entity in 1997 and 1998, the drilling opportunities were located in oil-prone areas of the Western Canadian Sedimentary Basin. The total number of wells in which Arrival participated increased by 90 percent in 1999 compared to 1998, with a continued success rate in the mid-80 percent range.

Drilling Activity

	1999		1998	
	Gross	**Net**	Gross	Net
Natural gas	**0**	**0**	3.0	1.9
Oil	**16.0**	**13.46**	6.0	3.8
Dry	**5.0**	**2.00**	1.0	0.8
Total	**21.0**	**15.46**	10.0	6.5
Success rate	**76.2**	**87.06**	90.0	87.6
Average working interest		**73.6**		65.0

Production

Of the four core areas which make up 85 percent of Arrival's 1999 average production, the most significant increases were centered around Red Earth and Worsley. The increased volumes at Worsley were a direct result of the 4-23 well which came on production in the first quarter and which successfully drained the pool's reserves by year-end. The production gains at Red Earth resulted from successful drilling operations and the re-completion of one well. Although Smiley production was lower year-over-year, the fourth quarter drilling program increased production substantially which will be reflected in the year 2000 results.

Production, before Royalties

	1999			1998		
	Natural gas (mmcf/d)	**Oil and NGL (bbls/d)**	**Combined (boe/d)**	Natural gas (mmcf/d)	Oil and NGL (bbls/d)	Combined (boe/d)
Alberta						
Worsley	**1.472**	**75**	**222**		23	23
Red Earth		**251**	**251**		30	30
Saskatchewan						
Browning		**44**	**44**		21	21
Smiley	**0.426**	**152**	**195**	0.107	267	278
Total	**1.898**	**522**	**712**	0.107	341	352

Reserves

Arrival's oil and natural gas reserves have been evaluated as at December 31, 1999 by Paddock Lindstrom and Associates Ltd. in their report dated March 15, 2000. Arrival registered weaker than expected reserve gains mainly due to a lack of success in our drilling program late in the year and our prolific Worsley well which was choked by water production at the end of 1999. These reserve additions have ultimately increased our finding costs to levels beyond industry standards. Although we will continue to work at lowering these costs, the effect on our profitability is partially offset by the high quality of the crude being targeted by our Gordondale and Red Earth oil prospects.

Reserve Summary, before Royalties

	1999			1998		
	Natural gas (bcf)	**Oil and NGL (mbbls)**	**Combined (mboe)**	Natural gas (bcf)	Oil and NGL (mbbls)	Combined (mboe)
Proven producing	**1.302**	**588.3**	**718.5**	1.936	615.0	808.6
Proven non-producing	**0.245**		**24.5**	4.104	89.4	499.8
Proven undeveloped	**0.331**	**268.9**	**302.0**			
Total proven	**1.878**	**857.2**	**1,045.0**	6.040	704.4	1,308.4
Probable	**0.789**	**730.5**	**809.4**	0.282	225.5	253.7
Proven plus probable	**2.667**	**1,587.7**	**1,854.4**	6.322	929.9	1,562.1

operations statistical summary

Reserve Reconciliation

	Natural Gas (bcf)			Oil and NGL (mbbls)			Total (mboe)		
	Proven	Probable	Total	Proven	Probable	Total	Proven	Probable	Total
December 31, 1998	6.041	0.282	6.323	704.4	225.5	929.9	1,308.5	253.7	1,562.2
Discoveries and extensions	0	0	0	405.9	262.3	668.2	405.9	262.3	668.2
Acquisitions	0.669	0.242	0.911	142.7	61.8	204.5	209.6	86.0	295.6
Dispositions	0	0	0	0	0	0	0	0	0
Production	(1.116)	0	(1.116)	(192.6)	0	(192.6)	(304.2)	0	(304.2)
Revisions of prior estimates	(3.715)	0.265	(3.450)	(202.4)	180.4	(22.0)	(573.9)	206.9	(367.0)
December 31, 1999	1.879	0.789	2.668	858.0	730.0	1,588.0	1,045.9	808.9	1,854.8

Net Present Value before Income Tax (without ARTC)

($ millions)	0%	10%	15%	20%
Proven producing	9.0611	6.9320	6.3556	5.9065
Proven non-producing	0.4001	0.3606	0.3442	0.3294
Proven undeveloped	3.0564	2.0705	1.7727	1.5461
Total proven	12.5176	9.3631	8.4725	7.7820
Probable additional	6.4016	2.8948	2.1001	1.5478
Total proven plus probable	18.9192	12.2579	10.5726	9.3298
50% reduction for risk	(3.2008)	(1.4474)	(1.0500)	(0.7739)
Risked proved + probable	15.7184	10.8105	9.5226	8.5559

Net Present Value before Income Tax (including ARTC)

($ millions)	0%	10%	15%	20%
Proven producing	9.3130	7.1494	6.5600	6.1000
Proven non-producing	0.4529	0.4084	0.3900	0.3733
Proven undeveloped	3.3658	2.3089	1.9885	1.7441
Total proven	13.1317	9.8668	8.9385	8.2174
Probable additional	6.6893	3.1118	2.2959	1.7268
Total proven plus probable	19.8210	12.9785	11.2344	9.9443
50% reduction for risk	(3.3446)	(1.5559)	(1.1479)	(0.8634)
Risked proved + probable	16.4764	11.4226	10.0865	9.0808

Reference Price Forecasts

		Oil		Natural gas
	WTI @ Cushing, Oklahoma $US/bbl	Edmonton par price 40° API $C/bbl	Henry Hub, Louisiana $US/mmbtu	Alberta reference price, Plant gate $C/mmbtu
2000	21.00	29.43	2.50	2.67
2001	20.00	27.57	2.50	2.75
2002	20.50	27.85	2.50	2.75
2003	20.91	28.00	2.55	2.75

Capital Expenditures

($)	1999	1998
Acquisitions, net of dispositions	**2,824,875**	(193,000)
Exploration and development	**5,373,469**	4,246,000
Facilities	**2,783,592**	870,000
Land	**91,990**	654,000
Total capital expenditures	**11,073,926**	5,577,000

Finding and Onstream Costs

Total corporate	1999
Proven reserve additions (mboe)	**615.5**
Established reserve additions (mboe)	**789.7**
Proven and probable reserve additions (mboe)	**963.8**
Proven finding and onstream costs ($/boe)	**17.99**
Established finding and onstream costs ($/boe)	**14.02**
Proven and probable finding and onstream costs ($/boe)	**11.49**

Net Asset Value

($ thousands)	1999	1998	% change
Present value of proved and probable reserves, including			
ARTC, discounted at 10%	**$12,979**	$14,024	(7)
Undeveloped acreage	**1,247**	1,744	(28)
Working capital	**(4,323)**	(1,140)	279
Bank debt	**(1,950)**	0	n/a
	$7,953	$14,628	(46)
Shares outstanding	**10,158,620**	11,399,993	(11)
Net asset value/share	**$0.78**	$1.28	(39)

management's DISCUSSION & analysis

Highlights

Arrival's business strategy of growth through full-cycle exploration and development, led to record revenue, cash flow and net income in 1999. Arrival's 1999 highlights included:

- Gross production revenue increased 289 percent to $7.8 million from $2.0 million.
- Cash flow from operations rose 469 percent to $4.5 million from $0.8 million in 1998.
- Net income was $769,000 up from a net loss of $11,000 in 1998.

Results of Operations

The tables below provide summaries of Arrival's operations during the past two years.

Income Summary

	1999		1998	
	(000s)	**(per boe)**	(000s)	(per boe)
Petroleum and natural gas revenue	**7,784**	**25.59**	1,999	13.87
Royalties	**(1,923)**	**(6.32)**	(320)	(2.22)
Alberta Royalty Tax Credit	**818**	**2.69**	56	.39
Operating costs	**(1,779)**	**(5.85)**	(696)	(4.83)
Field netback	**4,900**	**16.11**	1,039	7.21
Other income	**7**	**.02**	67	.46
General and administrative costs	**(264)**	**(.87)**	(320)	(2.22)
Current taxes	**(107)**	**(.35)**	0	.00
Operating netback	**4,536**	**14.91**	786	5.45
Cash interest	**(61)**	**(.20)**	0	.00
Cash flow from operations	**4,475**	**14.71**	786	5.45
Depletion, depreciation and site restoration	**(2,762)**	**(9.08)**	(621)	(4.31)
Deferred taxes	**(944)**	**(3.10)**	(176)	(1.22)
Net income (loss)	**769**	**2.53**	(11)	(0.08)

Petroleum and Natural Gas Revenue

Petroleum and natural gas revenues increased 289 percent in 1999 to $7.8 million from $2.0 million in 1998. Revenue from the sale of oil and natural gas liquids increased 204 percent to $4.7 million, while oil and natural gas liquids volumes increased 52 percent to 527 bbls per day from 346 bbls per day. The increase in oil volumes reflected our successful oil wells drilled in the Smiley area in 1999, combined with a full year of production from the wells drilled in 1998.

Arrival's average selling price for oil and natural gas liquids was $24.28 per bbl, up 97 per cent from the $12.34 per bbl received in 1998. Revenue from sales of our main commodity — oil — contributed 60 percent of Arrival's gross revenue in 1999, down from 77 percent in 1998.

In 1999, revenue from natural gas sales increased 605 per cent to $3.1 million compared with 1998. The majority of this increase is attributable to our Worsley gas well, which started producing in 1999. Our average selling price for natural gas was $2.77 per mcf, up 13 percent from $2.45 per mcf in 1998. Natural gas revenue is expected to decrease in 2000 due to the watering out of the Worsley gas well.

Petroleum and Natural Gas Revenue

($ thousands)	1999	1998	% change
Sales revenues			
Oil and natural gas liquids	**$4,669**	$1,538	204
Natural gas	**3,083**	437	605
Other	**32**	24	33
	$7,784	$1,999	289
Oil and natural gas liquids revenue as % of total petroleum and natural gas revenue	**60%**	77%	(22)

Volumes and average prices

	1999	1998	% change
Oil and natural gas liquids			
Average daily volume (bbls/d)	**527**	346	52
Average selling price	**$24.28**	$12.34	97
Natural gas			
Average daily volume (mcf/d)	**3,060**	492	521
Average selling price ($/mcf)	**$2.77**	$2.45	13
Boe (10 mcf=1 bbl)			
Average daily volume (boe/d)	**833**	395	111
Oil and natural gas liquids as % of total boe/d	**63%**	88%	(28%)
Average selling price ($/boe)	**$25.56**	$13.86	84

Royalties

Royalties paid by Arrival, net of credits, were 319 percent higher at $1.1 million in 1999, compared to 1998. Higher royalties resulted from a combination of higher commodity prices and volumes for both oil and natural gas. As a percent of gross sales of petroleum and natural gas, royalties were 14 percent in 1999 versus 13 percent in 1998. The increase in Arrival's overall royalty rate is directly attributable to the increased royalty rates associated with higher selling prices for both oil and natural gas.

Royalties, Net of Credits

($ thousands)	**1999**	1998	% change
Crown	**$1,496**	$196	663
Other	**427**	124	244
ARTC	**(818)**	(56)	1,361
	$1,105	$264	319
Average royalty rate	**14.2%**	13.2%	8
Average royalty/boe	**$3.63**	$1.83	98

Operating Costs

Total operating costs increased 156 percent to $1.8 million in 1999 due to increased production. On a per boe basis, operating expenses increased 21 percent to $5.85 in 1999 due to workovers associated with new well start-ups in the Smiley area and from trucking and emulsion costs in the Red Earth area. We anticipate that operating costs in 2000 will be lower on a per boe basis because the 1999 Smiley start-up costs are a one-time occurrence and the Red Earth wells were tied into a production facility in early 2000, thereby reducing the trucking and emulsion costs.

General and Administrative Expenses

Gross general and administrative expenses increased 12 percent to $661,000, reflecting increased staff and activity. Both operating and capital overhead recoveries increased significantly with this higher level of activity while the amount of general and administrative expenses capitalized decreased with increased production. Arrival capitalizes administrative costs that are directly attributable to the acquisition, exploration and development of properties, an amount that varies annually as a percentage of gross general and administrative expenses. In 1999, Arrival capitalized 27 percent of its gross general and administrative expenses. The overall effect of these factors was a decrease in net general and administrative costs of 18 percent from 1998. On a per boe basis, net general and administrative costs decreased 61 percent to $0.87.

General and Administration Expenses

($ thousands)	1999	1998	% change
Gross general and administration expenses	**$661**	$591	12
Overhead recoveries	**($217)**	($25)	768
Capitalized general and administration expenses	**(180)**	(246)	(27)
	$264	$320	(18)
Per boe			
Gross general and administration expenses	**$2.17**	$4.09	(47)
Overhead recoveries	**(0.71)**	(0.17)	318
Capitalized general and administration expenses	**(0.59)**	(1.70)	(65)
Net	**$0.87**	$2.22	(61)

Interest Expense

Interest expense of $61,000 was incurred in 1999 as a result of Arrival's revolving credit facility that was used to finance capital expenditures in excess of 1999 cash flow. The total bank debt outstanding at year-end was $1.9 million, which represents a multiple of only 0.4 times Arrival's 1999 cash flow.

Depletion and Depreciation

Depletion and depreciation grew 345 percent to $2.8 million in 1999 from the previous year as a result of increases in production and in the net book value of petroleum and natural gas properties. The 111 percent increase in depletion and depreciation per boe to $9.08 is attributable to the Worsley gas reserves that were written off, as well as a more conservative approach taken on the 1999 reserve calculation.

Depletion and Depreciation Expense

($ thousands)	1999	1998	% change
Depletion	**$2,551**	$575	344
Depreciation	**85**	18	372
	2,636	593	345
Site restoration and abandonment	**126**	28	350
	$2,762	$621	345
Average per boe			
Depletion	**$8.39**	$3.99	110
Depreciation	**0.28**	0.13	115
	8.67	4.12	110
Site restoration and abandonment	**0.41**	0.19	116
	$9.08	$4.31	111

Cash Flow from Operations

In 1999, cash flow from operations increased 469 percent to $4.5 million, while cash flow per share increased 529 percent to $0.44 in 1999 compared with $0.07 in 1998. Increases in the production of oil and natural gas combined with commodity price increases were the main factors contributing to the 1999 cash flow growth.

Taxes

Arrival estimates tax pool balances at December 31, 1999 of $9.4 million, up 188 percent from year-end 1998 tax pool balances of $3.3 million. Due to the renouncement of capital expenditures to our Class B shareholders of $7.6 million, Arrival has a current tax liability of $107,000 and a deferred tax liability of $944,000. With the renouncement completed, all capital expenditures incurred in the year 2000 will be for Arrival's tax pool balances.

Tax Pools at December 31

($ thousands)	1999	1998	% change
Canadian exploration expense	**$ 0**	$ 338	na
Canadian development expense	**$2,057**	$ 68	2,925
Canadian oil and gas property expense	**$3,664**	$1,247	194
Undepreciated capital costs	**$3,361**	$1,158	190
Other	**$ 329**	$ 460	(28)
	$9,411	$3,271	188

Capital Expenditures

In 1999, Arrival incurred capital expenditures on property and equipment of $10.5 million, up 170 percent from 1998. The capital expenditures were financed by cash flows from operations, by the private placement proceeds and by long term debt of $1.9 million.

Capital Expenditures

($)	1999	1998
Acquisitions, net of dispositions	**$2,824,875**	(193,000)
Exploration and development	**$5,373,469**	4,246,000
Facilities	**$2,783,592**	870,000
Land	**$ 91,990**	654,000
Total capital expenditures	**11,073,926**	5,577,000

Liquidity and Capital Structure

At December 31, 1999, Arrival's total book capitalization of $8.2 million consisted of shareholders' equity of $6.2 million and bank debt of $2.0 million. This compares to total book capitalization at December 31, 1998 of $5.2 million of shareholders' equity. The increase in total capitalization of 58 percent is attributable to an increase in capital assets financed with cash flow, bank debt and an equity issue. During 1999, 215,332 Class A shares were issued under option agreements while another 1,150,000 shares were issued under a private placement agreement, bringing the total number of outstanding Class A common shares to 5,825,665. There remains 762,600 Class B common shares outstanding which are convertible to Class A shares based on a predetermined formula.

Arrival has available a $10.0 million demand revolving operating credit facility, of which $2.0 million was drawn at year-end 1999. This credit facility bears interest at prime plus one-quarter percent per annum and is secured by a floating charge debenture, general assignment of book debts and the Company's petroleum and natural gas properties and equipment. Subsequent to year-end and in conjunction with the lender's periodic review of the reserve base and the property dispositions on May 5, 2000, the maximum amount available was reduced to $2,750,000.

Liquidity

($ thousands)	1999	1998	% change
Book value			
Bank debt	$1,950	$0	n/a
Shareholders' equity	6,234	5,165	21
	$8,184	$5,165	58
As % of total			
Bank debt	24%	0%	n/a
Shareholders' equity	76%	100%	(24)

Business Risks

The exploration for and the development, production and marketing of oil and natural gas involves a wide range of business risks, some of which are beyond the Company's control. Included in these risks are the uncertainty of finding new reserves, encountering production difficulties in successfully completed wells, commodity price fluctuations, the volatile nature of interest rates and foreign exchange, and the possibility of changes to royalty, tax and environmental regulations.

The business risks facing Arrival are mitigated in a number of ways. Arrival hires and contracts highly skilled professionals with proven expertise in their field. Arrival also reduces risk by maintaining an inventory of internally-generated prospects covering both oil and natural gas within strategically selected, core geographic areas, operating joint venture prospects and using the latest applicable technology. Oil and natural gas exploration and production are subject to hazards that could result in substantial damage or interruption to wells, facilities or other property. Arrival manages this risk through conducting regular maintenance and acquiring comprehensive liability insurance coverage.

Financial risks include commodity prices, interest rates and foreign exchange, all of which are beyond the control of Arrival. The Company manages its exposure to commodity pricing and exchange rate fluctuations through hedges where appropriate. In addition the Company minimizes interest rate risk through the prudent management of cash flow, bank and equity financing. The oil and natural gas industry is subject to federal and provincial regulations and controls, many of which are beyond the control of Arrival. Various provincial regulations govern royalty rates, land tenure and production rates. The industry must also adhere to environmental protection regulations that have been enacted by the federal and provincial governments. Arrival takes a proactive approach with respect to environmental and safety matters and also has an operational emergency response plan in place.

management's report to the shareholders

The management of Arrival Energy Ltd. is responsible for the information included in this Annual Report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and in accordance with accounting policies detailed in the notes to the financial statements. Where necessary, the financial statements include amounts based on management's informed judgements and estimates. Financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that all of the Company's assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Dan Wilson

Dan T. Wilson
President and Chief Executive Officer

Wendy Brown

Wendy Brown
Controller

auditors' report to the shareholders

To the directors of Arrival Energy Ltd.

We have audited the balance sheets of Arrival Energy Ltd. as at December 31, 1999 and 1998 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 18, 2000 except as to note 9 which is as at May 5, 2000

Balance Sheets

December 31, 1999 and 1998	1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	**$ -**	$ 937,459
Accounts receivable	**2,216,104**	848,661
Prepaid expenses	**176,656**	38,044
	2,392,760	1,824,164
Property, plant and equipment (note 3)	**14,340,250**	6,428,256
	$ 16,733,010	$ 8,252,420
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	**$ 195,979**	$ -
Accounts payable and accrued liabilities	**6,520,229**	2,963,860
	6,716,208	2,963,860
Long-term debt (note 4)	**1,950,000**	-
Site restoration provision	**154,539**	28,400
Deferred income taxes	**901,502**	87,292
Shareholders' equity:		
Share capital (note 5)	**6,234,101**	5,165,277
Retained earnings	**776,660**	7,591
	7,010,761	5,172,868
Commitments (note 8)		
Subsequent events (notes 4 and 9)		
	$ 16,733,010	$ 8,252,420

See accompanying notes to financial statements.

Approved on behalf of the Board:

Director

Director

Statements of Operations and Retained Earnings

Years ended December 31, 1999 and 1998		1999		1998
Revenue:				
Production income, net	**$**	**6,679,024**	$	1,735,071
Interest and other income		**7,541**		66,715
		6,686,565		1,801,786
Expenses:				
Production		**1,779,431**		696,015
General and administrative		**264,744**		320,120
Interest on long-term debt		**60,557**		-
Depletion, depreciation and site restoration		**2,761,774**		620,778
		4,866,506		1,636,913
Income before taxes		**1,820,059**		164,873
Current taxes		**106,780**		-
Deferred income taxes (note 6)		**944,210**		176,164
Net income (loss)		**769,069**		(11,291)
Retained earnings, beginning of year		**7,591**		18,882
Retained earnings, end of year	**$**	**776,660**	$	7,591
Basic earnings per share	**$**	**0.08**	$	0.00

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended December 31, 1999 and 1998	1999	1998
Cash provided by (used in):		
Operations:		
Net income (loss)	$ 769,069	$ (11,291)
Items not involving cash:		
Depletion, depreciation and site restoration	2,761,774	620,778
Deferred income taxes	944,210	176,164
Funds provided from operations	4,475,053	785,651
Net change in non-cash working capital	(888,616)	101,925
	3,586,437	887,576
Financing:		
Issue of Class A shares	1,471,166	86,167
Share issue costs	(6,046)	(1,587)
Long-term debt	1,950,000	-
	3,415,120	84,580
Investing:		
Property, plant and equipment	(11,073,925)	(5,577,128)
Change in non-cash working capital	2,938,930	1,506,828
	(8,134,995)	(4,070,300)
Change in cash and cash equivalents	(1,133,438)	(3,098,144)
Cash and cash equivalents, beginning of year	937,459	4,035,603
Cash and cash equivalents (bank indebtedness), end of year	$ (195,979)	$ 937,459

See accompanying notes to financial statements.

notes to financial statements

Years ended December 31, 1999 and 1998

1. INCORPORATION

Arrival Energy Ltd. (the "Corporation") was incorporated under the laws of the Province of Alberta by Articles of Incorporation dated November 12, 1996 as 716175 Alberta Ltd. On January 17, 1997 Articles of Amendment were filed to change the Corporation's name to Arrival Energy Ltd. The Corporation is engaged in the exploration and development of petroleum and natural gas properties.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Property, plant and equipment:

The Corporation follows the full cost method of accounting under which all costs associated with the exploration for and development of oil and gas reserves are capitalized. Capitalized costs include lease acquisition costs, the costs of geological and geophysical activities, the costs of drilling both productive and non-productive wells, carrying charges of non-producing properties and overhead costs directly related to exploration and development activities. Proceeds from the disposal of properties are applied as a reduction of the cost of the remaining assets, except when such a disposal would alter the rate of depletion and depreciation by more than 20 percent, in which case a gain or loss on disposal is recorded.

Depletion of oil and gas properties is calculated using the unit of production method which is based upon gross proven reserve volumes as determined by the Corporation. Production facilities are depreciated on a straight-line basis over 15 years useful life. Gas volumes are converted to equivalent oil volumes based upon the relative energy content of 6,000 cubic feet of gas to one barrel of oil.

The costs of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. These properties are assessed to determine whether an impairment in value has occurred. When proven reserves are assigned to the property or the property is considered to have an impairment in value, the cost of the property or amount of the impairment in value is added to the capitalized costs for the calculation of depletion.

The cost less accumulated depletion and depreciation, deferred income taxes and the accumulated provision for future site restoration costs ("net capitalized cost") is limited to the sum of the following ("cost ceiling"):

(i) The estimated undiscounted future net revenue (based on prices and costs at the balance sheet date) derived from proved reserves net of financing costs, production related general and administrative costs, future site restoration costs and income taxes; and

(ii) The lower of cost or fair market value of unproved properties.

Future net revenue is calculated using the current Income Tax and the Alberta Royalty Tax Credit legislation throughout the life of the reserves.

A significant portion of the Corporation's exploration, development and production activities are conducted jointly with others, and accordingly, the accounts reflect only the Corporation's proportionate interest in such activities.

(b) Flow-through shares:

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Property, plant and equipment, and the stated value of share capital are reduced by amounts equal to the estimated income tax benefits renounced by the Corporation to the investors. This reduction is recorded when the exploration and development expenditures are renounced to investors.

(c) Site restoration:

Future site restoration costs are expensed on a unit of production basis. These costs are based on year-end engineering estimates of the anticipated costs of site restoration. Actual expenditures incurred are applied against the future site restoration provision.

(d) Income taxes:

The Corporation follows the deferral method of accounting for income taxes.

(e) Measurement uncertainty:

The amounts recorded for depletion, depreciation and amortization of property, plant and equipment and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

(f) Per share amounts:

Per share amounts are calculated using the weighted average number of class A and B shares outstanding during the year. At December 31, 1999, the class A shares traded at $1.76 per share and accordingly the 762,600 class B shares would convert to 4,332,955 class A shares.

(g) Stock options:

The Corporation has a stock option plan as described in note 5. When stock options are issued the value of the options is not determined or recorded. Any consideration received on the exercise of stock options is credited to share capital.

3. PROPERTY, PLANT AND EQUIPMENT

1999	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$ 17,437,988	$ 3,196,563	$ 14,241,425
Office furniture and equipment	153,915	55,090	98,825
	$ 17,591,903	$ 3,251,653	$ 14,340,250
1998			
Petroleum and natural gas properties	$ 6,984,374	$ 596,056	$ 6,388,318
Office furniture and equipment	59,900	19,962	39,938
	$ 7,044,274	$ 616,018	$ 6,428,256

Costs related to acquiring and evaluating unproved properties totalling $1,247,483 (1998 - $1,744,351) were excluded from the depletion calculation.

As at December 31, 1999, the estimated future abandonment costs to be accrued over the remaining proved reserves totalled approximately $435,000 (1998 - $227,000).

4. LONG-TERM DEBT

The Corporation has a revolving operating demand loan that bears interest at the lender's prime rate plus 1/4% per annum and is secured by a floating charge debenture, general assignment of book debts and the Corporation's petroleum and natural gas properties and equipment. As at December 31, 1998 the maximum amount available was $2,000,000. During 1999 this was increased to $10,000,000. In conjunction with lender's periodic review of the reserve base and the property dispositions on May 5, 2000, the maximum amount available was reduced to $2,750,000. The borrowing base is subject to further review by June 30, 2000 (see also note 9).

5. SHARE CAPITAL

(a) Authorized:

On January 17, 1997 the Corporation filed Articles of Amendment to amend the capital structure and create Class A and Class B shares. Common shares outstanding were cancelled and the holders of these shares received one Class A share for each common share held. For purposes of these financial statements, all descriptions of shares issued during 1996 reflect the amended capital structure.

The Corporation has an unlimited number of Class A shares and Class B shares authorized. The Class A shares and Class B shares are voting on the basis of one vote per share. There are no fixed dividends payable on either the Class A or Class B shares. The Class B shares are convertible, at the option of the Corporation, at any time after March 31, 2001 and before March 31, 2003 into Class A shares upon five days prior notice to holders of Class B

shares. The number of Class A shares obtained upon conversion of each Class B share will be equal to $10 divided by the greater of $1 and the current market price of the Class A shares. If the Corporation fails to exercise the conversion option by March 31, 2003, then the Class B shares shall be convertible at the option of the shareholder, at any time after April 1, 2003 and before May 1, 2003 into Class A shares. Any Class B shares not converted by May 1, 2003 will be automatically converted into Class A shares at the conversion rate.

The Corporation has also authorized an unlimited number of preferred shares.

(b) Issued and outstanding:

	Number of Shares		Amount
Class A shares:			
Balance, December 31, 1997	4,370,000	$	874,000
Exercise broker warrants	82,000		82,000
Exercise directors' options	8,333		4,167
Balance, December 31, 1998	4,460,333		960,167
Private placement proceeds	1,150,000		1,322,500
Share issue costs			(6,046)
Exercise broker warrants	82,000		82,000
Exercise options	133,332		66,666
Balance, December 31, 1999	5,825,665	$	2,425,287
Class B shares:			
Balance, December 31, 1997	762,600	$	5,794,032
Share issue costs	-		(1,587)
Share issue costs - deferred taxes	-		88,872
Flow through renouncements	-		(1,676,207)
Balance, December 31, 1998	762,600		4,205,110
Share issue costs - deferred taxes	-		130,000
Flow through renouncements	-		(526,296)
Balance, December 31, 1999	762,600	$	3,808,814

During 1997, Arrival issued Class B flow through shares for proceeds of $7.6 million. As at December 31, 1999, the Corporation had incurred qualifying expenditures of $7,626,000 which had been renounced to the shareholders.

(c) Stock options:

Stock options, entitling the holder to purchase common shares from the Corporation, have been granted to directors, officers, and certain employees of the Corporation. The options vest one-third on each of the first, second and third anniversaries of the date of grant and expire five years from the date of the grant. A summary of the status of the Corporation's stock option plan as of December 31, 1999 and 1998, and changes during the years then ended, is presented below:

	1999			1998		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Stock options outstanding, beginning of year	**381,667**	**$**	**0.50**	390,000	$	0.50
Granted	**325,000**		**1.32**	-		-
Exercised	**(133,332)**		**0.50**	(8,333)		0.50
Expired	**(33,334)**		**0.50**	-		
Stock options outstanding, end of year	**540,001**	**$**	**0.99**	381,667	$	0.50
Exercisable at year-end	**118,334**	**$**	**0.50**	121,665	$	0.50

The following table summarizes information regarding stock options outstanding at December 31, 1999:

Options outstanding			Options exercisable	
Exercise price	Number outstanding	Weighted-average remaining contractual life (years)	Number exercisable	Weighted-average exercise price
$0.50	215,001	2.3	118,334	$ 0.50
$1.15	100,000	4.4	-	-
$1.40	225,000	4.6	-	-
	540,001	3.7	118,334	$ 0.50

6. INCOME TAXES

The provision for income tax differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate to income before taxes. This difference results from the following:

	1999	1998
Effective tax rate	44.7%	44.7%
Computed expected income tax	$ 813,566	$ 73,698
Effect on income tax of:		
Resource allowance	(609,813)	(108,534)
Non-deductible Crown royalties, net of Alberta Royalty Tax credit	307,723	62,785
Non-deductible depletion	537,355	146,404
Other	1,679	1,811
Large Corporations Tax	480	-
Income tax expense	$ 1,050,990	$ 176,164
The income tax provision consists of:		
Current	$ 106,780	$ -
Deferred	944,210	176,164
	$ 1,050,990	$ 176,164

The Corporation has tax pools of approximately $9,411,000 available to reduce future years' taxable income.

7. FINANCIAL INSTRUMENTS

The fair values of financial instruments included in the balance sheet approximate their carrying amount due to their short-term maturity.

8. COMMITMENTS

As of the Corporation is committed to payments under an office lease agreement as follows:

2000	$ 90,800
2001	95,800
2002	102,200
2003	106,700

9. SUBSEQUENT EVENTS

On May 1, 2000 the Corporation and AltaQuest Energy Corporation jointly announced that they have entered into an amalgamation agreement. Pursuant to the terms of the agreement, shareholders of the Corporation would receive 1.4 AltaQuest common shares for each Class A share and 2.24 AltaQuest common shares for each Class B share. The transaction is subject to shareholder, regulatory and other approvals. On May 5, 2000 the Corporation sold certain oil and gas properties for cash consideration of $4,500,000.

10. COMPARATIVE FIGURES

The presentation of certain accounts of the prior year have been changed to conform with the presentation adopted for the current year.

corporate information

BOARD OF DIRECTORS

Don G. Chomyn
President
Carpenter Capital Corp.

David M. Ewasuik
President
EFA Software Services Ltd.

Andrew W. Kramchynski
Senior Vice-President
Arrival Energy Ltd.

Richard R. Osler
President
Aequanimitas Ltd.

Dan T. Wilson
President and CEO
Arrival Energy Ltd.

OFFICERS & SENIOR PERSONNEL

Wendy Brown
Controller

Peter G. A. Guyan
Vice President, Exploration

Andrew W. Kramchynski
Senior Vice President and Director

D. Ken Truscott
Senior Vice President and COO

Dan T. Wilson
President and CEO

Harley L. Winger
Secretary

HEAD OFFICE

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STOCK EXCHANGE LISTING

The Canadian Venture Exchange
Stock Symbols: ARR.A
ARR.B

BANKERS

National Bank of Canada
401 - 8th Avenue S.W.
Calgary, Alberta T2P 1E4

AUDITORS

KPMG LLP
1200, 205 - 5th Avenue S.W.
Calgary, Alberta T2P 4B9

REGISTRAR AND TRANSFER AGENT

Montreal Trust
600, 530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8

SOLICITORS

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